



Equity Valuation of Stanbic Uganda Holdings Limited

Prepared by:

JSR Consulting Limited | www.jsamuelrichards.com

26 August 2024

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CAGR	Compound Annual Growth Rate
JSR	JSR Consulting Limited
PAT	Profit After Tax
PE multiple	Price Earnings Multiple
WACC	Weighted Average Cost of Capital

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Scope and process



Scope of our work

This valuation report estimates the indicative fair market value of the ordinary shares of Stanbic Uganda Holdings Limited (“the company”) as at 26 August 2024. We define fair value as the price at which an asset (or liability) would change hands if neither buyer nor seller were under compulsion to buy/sell and both were informed about material underlying facts.

Because the company at its core is a financial institution, we have dispensed of the traditional approaches to business valuation. Financial institutions have a number of unique features: i) debt is raw material, therefore capital in a financial institution is narrowly defined as shareholders’ equity, which is reinforced by regulatory capital requirements; (ii) unlike other firms, financial institutions do not hold significant investments in fixed assets, but focus on such intangible assets as brand name and human capital. These investments are generally expensed in the income statement rather than capitalised; (iii) the WACC and free cash flow to equity valuation inputs are impaired because of the aforementioned treatment of debt.

Consequently, we adopted the following valuation models, which we consider to be more appropriate for financial institutions:

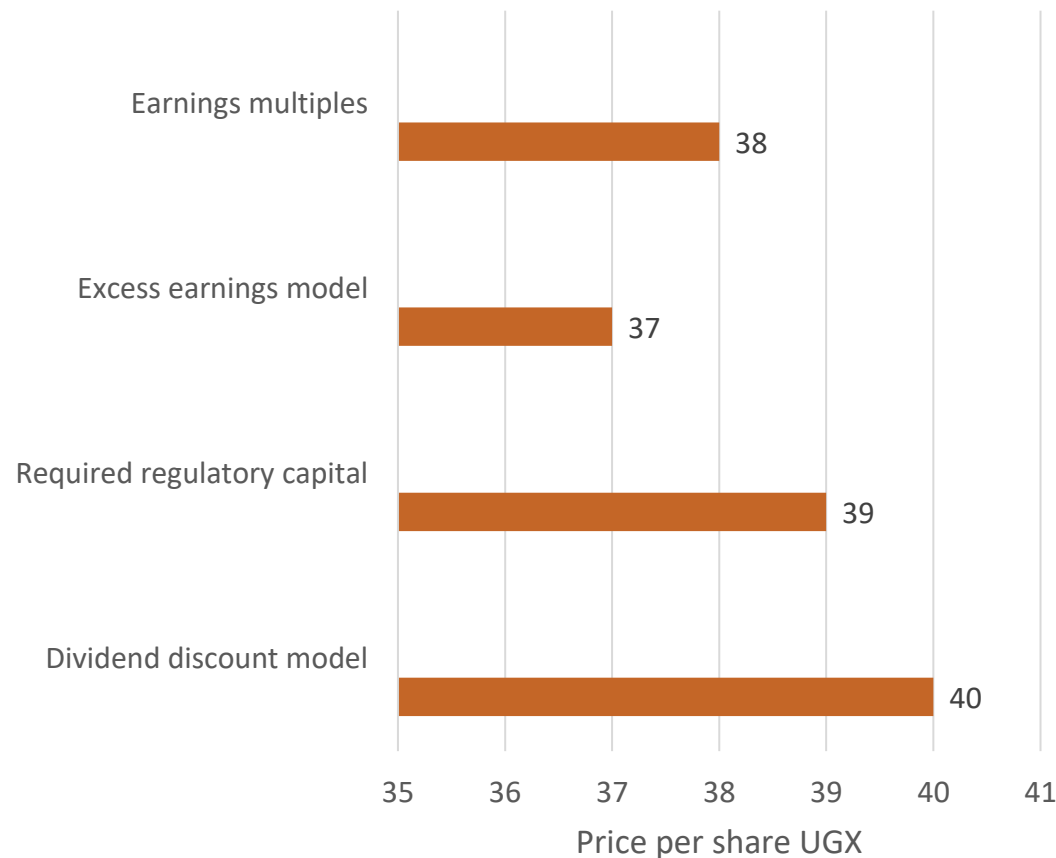
- i. The dividend discount model – which posits that the value of a share is the present value of the expected dividends on that share;
- ii. Estimation of the required reinvestment in regulatory capital (similar to the traditional investment in capex and working capital);
- iii. The excess earnings model – essentially the difference between return on equity and cost of equity
- iv. Pricing model – based on comparative PE multiples.

Scope and process (continued)

<p>Sources of information</p>	<p>We relied on public information sources including:</p> <ul style="list-style-type: none"> • The company’s annual reports and audited financial statements • Annual reports and audited financial statements of comparable financial institutions • Publicly available share price data.
<p>Procedures performed</p>	<p>The procedures we carried out include desk review of the historical financial information available to us, and based on our judgment, derivation of the company’s financial forecasts. We have prepared our valuation estimates on an indicative basis. This does not represent a formal valuation opinion because we have not completed a detailed due diligence that would be required for us to issue such an opinion.</p>
<p>General limiting conditions</p>	<p>By its very nature, valuation work is not an exact science and the conclusions arrived at will be subjective and dependent on the exercise of individual judgement. Whilst we consider that the indicative fair value estimate provided by us is both reasonable and defensible, based on the information available to us, others may place a different value on the company.</p>

Valuation Summary:

We estimate that the fair market value of the Stanbic Uganda Holdings Limited is Shs38 per share. **We expect the shares to perform in line with current market expectations.**



- We derived the following estimated fair values for the company's shares:
 - Dividend discount model – Shs40
 - Required regulatory capital model – Shs39
 - Excess earnings model – Shs37
 - Earnings multiples (relative pricing) model – Shs36.
- Based on our findings, we estimate the current fair market value of the Stanbic Uganda Holdings share to be Shs38.
- Our estimated price is 2.6% lower than the company's current market price per share of Shs39.

About Stanbic Uganda Holdings Limited

Stanbic Uganda Holdings Limited (the “Company”) is a limited liability company, incorporated and domiciled in Uganda. The Company has five subsidiaries which are: Stanbic Bank Uganda Limited, FLYHUB Uganda Limited, Stanbic Properties Limited, Stanbic Business Incubator Limited and SBG Securities Uganda Limited.

Stanbic Uganda Holdings provides a range of financial services, including: corporate and investment banking, personal and business banking, wealth management, insurance broking.

Stanbic Uganda Holdings is listed on the Uganda Securities Exchange (USE).

Profit after tax during FY20-23 grew at a CAGR of 14%, indicating strong post-Covid19 resilience. The company also posted significant improvements in operating efficiency, the cost-income ratio declined from 57% in FY20 to 49% during the period ended 30 June 2024.

Stanbic Holdings Uganda - Income Statement Analysis						
	FY20	FY21	FY22	FY23	Jun'24	FY20-23
<i>UGX' billion</i>	Audited	Audited	Audited	Audited	YTD	CAGR
Interest income	536	544	635	782	406	10%
Interest expense	(45)	(46)	(46)	(73)	(43)	13%
Net interest income	491	498	589	709	362	10%
Net fees and commissions income	157	165	177	204	100	7%
Net trading income	177	234	261	270	169	11%
Other operating income	6	7	10	11	6	17%
Total income before credit impairment charge	831	903	1,038	1,194	637	9%
Impairment charge for credit losses	(92)	(70)	(60)	(69)	(14)	-7%
Total income after credit impairment charge	740	833	978	1,125	623	11%
Overheads	(421)	(482)	(495)	(584)	(305)	9%
Profit before income tax	319	351	483	541	318	14%
Income tax expense	(77)	(82)	(126)	(129)	(83)	14%
Profit after tax	242	269	357	412	236	14%
KPIs						
Net interest margin	92%	92%	93%	91%	89%	
Cost / income ratio	57%	58%	51%	52%	49%	
Effective tax rate	24%	23%	26%	24%	26%	
Return on average equity	20%	19%	22%	22%	24%	
Total income growth	-3%	13%	17%	15%	13%	
Profit after tax growth	-7%	11%	33%	15%	18%	

- Selected average KPIs for the four year period FY20-23 are :
 - Revenue growth – 10%
 - PAT growth – 13%
 - Return on average equity – 21%
- CAGR in revenues (11%) outpaced overhead growth (9%) and impairment charges (7%), resulting into a strong growth in profitability (14% CAGR)
- Year-on-year June 24 PAT growth of 18%, indicates strong forecast performance for FY24.

The company's total assets grew by at a relatively modest 2% CAGR during FY20-FY23

Stanbic Holdings Uganda - Balance Sheet Analysis						
	FY20	FY21	FY22	FY23	Jun'24	FY20-23
<i>UGX' billion</i>	Audited	Audited	Audited	Audited	YTD	CAGR
Cash and balances with Bank of Uganda	1,155	985	1,085	1,079	812	-2%
Trading and financial investments	2,445	2,035	2,971	3,104	2,867	6%
Loans and advances to banks	684	1,106	296	241	238	-23%
Loans and advances to customers	3,618	3,722	4,085	4,225	4,379	4%
Amounts due from group companies	355	401	228	330	1,003	-2%
Property, equipment and other assets	321	471	393	325	467	0%
Total Assets	8,579	8,720	9,059	9,303	9,766	2%
Ordinary share capital	51	51	51	51	51	0%
Fair value and statutory reserves	(3)	18	10	7	2	
Retained earnings	1,100	1,414	1,536	1,668	1,764	11%
Proposed dividends	95	50	185	155	140	13%
Total Equity	1,243	1,533	1,783	1,881	1,957	11%
Current tax liabilities	230	205	149	135	170	-12%
Deposits from customers	5,493	5,741	6,131	6,333	6,552	4%
Deposits from banks	785	155	142	97	78	-41%
Due to group companies	352	260	220	244	207	-9%
Other liabilities	475	825	634	614	801	7%
Total Liabilities	7,335	7,187	7,276	7,422	7,809	0%
Total Equity and Liabilities	8,579	8,720	9,059	9,303	9,766	2%
KPIs						
Tier 1 capital ratio	16%	20%	21%	23%	21%	
Total capital ratio	18%	22%	23%	25%	23%	
Growth in total equity	11%	23%	16%	6%	4%	
Growth in total assets	29%	2%	4%	3%	4%	
Growth in loans and advances to customers	27%	3%	10%	3%	10%	
Growth in customer deposits	16%	5%	7%	3%	5%	

- Trading and financial investments accounted for the bulk of the company's asset growth during FY20-23
- Loans and advances to customers grew at a 4% CAGR during FY20-23
- The company posted a strong 5% growth in total assets during the four years ending FY23, driven by balances due from group companies
- Customer liabilities grew at a modest CAGR of 4% during the period
- The bulk of the bank's funding growth was derived from shareholders' equity, which grew at a CAGR of 11% during the period
- The company's maintained average Tier 1 capital ratio of 20% during FY20-23, well above the minimum regulator requirement of 10%.

Valuation Workings

Stanbic Uganda Holdings Limited

26 August 2024

The dividend discount model method indicates a valuation of UGX 40 per share. This method estimates the company's equity value as the present value of all of its future dividends.

Dividend discount model	Base year						Terminal
<i>Shs' billions</i>	2023	2024	2025	2026	2027	2028	Value
Earnings growth rate		7.18%	7.18%	7.18%	7.18%	7.18%	
Return on equity	22.46%	22.46%	22.46%	22.46%	22.46%	22.46%	
Profit after tax (Shs' millions)	412	441	473	507	543	582	
Dividend payout ratio	68.04%	68.04%	70.00%	70.00%	75.00%	75.00%	
Dividends paid	280	300	331	355	407	437	2,729
Present value of dividends		247	224	197	186	164	1,027
Total present value	2,046						
Number of shares (000s)	51,188,670						
Value per share (Shs)	40						

- We estimated the company's profit after tax growth rate (7.18% pa) using two known inputs (return on average equity and the dividend payout ratio)
- Expected earning growth = Return on average equity *(1- dividend payout ratio)
- We assumed that the company will sustain this growth rate during the initial five year period, thereafter earnings growth will stabilize at 5% pa.

The regulatory capital valuation method indicates a valuation of UGX 39 per share. This method estimates the company's equity value as the present value of its free cash flows to equity.

<u>Regulatory capital valuation method</u>							
	Current						Terminal
<i>Shs' billions</i>	2023	2024	2025	2026	2027	2028	year
Risk weighted assets	6,763	7,208	7,683	8,189	8,728	9,302	9,914
Tier 1 capital ratio	22.60%	22.60%	22.60%	22.60%	22.60%	22.60%	22.60%
Tier 1 capital	1,528	1,629	1,736	1,851	1,972	2,102	2,241
Change in tier 1 capital		101	107	114	122	130	138
Book value of equity	1,881	1,982	2,089	2,204	2,325	2,455	2,594
Return on equity	21.87%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%
Profit after tax	412	436	460	485	512	540	571
Less: investment in tier 1 capital	-	(101)	(107)	(114)	(122)	(130)	(138)
= Free cashflow to equity	412	335	352	370	390	410	432
Terminal value of equity						2,475	
Present value		276	238	206	178	1,086	
Cost of equity	21.58%	21.58%	21.58%	21.58%	21.58%	21.58%	
Value of equity today =	1,985						
Number of shares outstanding (000)	51,188,670						
Value per share (Shs)	39						

- The free cash flow to equity is determined after accounting for investment in regulatory capital (Tier 1 capital)
- Tier 1 capital is the primary source of the company's capital and consists of ordinary share capital and certain approved reserves
- The company's Tier 1 capital ratio for FY23 was 22.60% well above the minimum statutory threshold of 10%.
- Bank of Uganda has designated Stanbic Bank Uganda as one of six systemically important banks. This points to enhanced regulatory capital requirements.
- We expect that the company's Tier 1 capital ratio will not reduce significantly from current levels.

The excess return model indicates a valuation of UGX 37 per share.

<u>Excess return method</u>	
<i>Shs' millions</i>	
Return on average equity	22.46%
Cost of equity	21.58%
Excess return	0.88%
BV of equity (Shs' millions)	1,881,403
Excess return (Shs' m)	16,557
Value of equity (Shs' m)	1,897,960
Number of shares (000s)	51,188,670
Value per share (Shs)	37

- This method estimates the company's equity value as the sum of the book value of equity and the estimated excess return on its equity.
- Excess return = (return on average equity – cost of equity) * book value of equity
- The company's FY23 return on average equity exceeded its cost of equity by 0.88%, indicating an excess return on equity of Shs16.6 billion

The company is currently trading at a 4.9 PE multiple, which is higher than the PEs of its peers. We believe that a slightly lower multiple of 4.7 is justified. This is equivalent to a price per share of UGX 38.

In our opinion, the company has no suitable peer in Uganda; the DFCU Limited shares appear to be significantly mispriced. We therefore benchmarked the company against Stanbic Kenya (PE 4.0) and Absa Bank Kenya (PE 4.7). The company's peers have significantly higher growth rates, but lower capital ratios.

Relative Pricing Model	Stanbic Uganda Holdings	DFCU Limited	Stanbic Kenya Holdings	KCB Bank Kenya	ABSA Bank Kenya	Equity Bank
Total assets (US\$ 'billions)	2.50	0.85	2.93	13.83	3.31	11.60
Growth rate in customer deposits (2023)	3.29%	-3.82%	18.45%	49.00%	19.40%	29.00%
Tier 1 capital ratio (31 Dec 23)	22.60%	29.59%	13.00%	11.80%	13.60%	14.30%
Return on equity	21.87%	4.00%	18.60%	15.90%	23.65%	22.30%
Market price per shares (26 Aug 24)	39.00	225.00	123.00	31.95	14.20	40.50
EPS	8.04	38.39	38.39	11.66	3.01	11.12
Equity book value per share (LC' billions)	36.75	860.84	173.55	73.31	12.73	57.80
Price to book multiple	1.06	0.26	0.71	0.44	1.12	0.70
PE multiple	4.9	5.9	4.0	2.7	4.7	3.6

Contact us to discuss this report or other valuation matters.

Robert Katuntu, CFA, CPA
Director
JSR Consulting Limited
Regency Plaza , Plot 30 Lugogo Bypass
PO Box 22934 Kampala
E: robert.katuntu@jsamuelrichards.com
W: www.jsamuelrichards.com

